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MUNGER CHADWICK, P.L.C

ADMITTED TO PRACTICE IN:
ARIZONA, COLORADO, MONTANA,
NEVADA, TEXAS, WYOMING,
DISTRICT OF COLOMBIA

February 24, 2006

Colleen Ryan, Supervisor
Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Re: Las Quintas Serenas Water Co.
Docket Nos. W-01583A-04-0178, W-01583A-05-0326 and W-
01583A-05-0340 (Consolidated)

Dear Ms. Ryan:

Pursuant to the Eighth Ordering Paragraph of the Commission's November 16, 2005 Procedural Order in the above-referenced consolidated proceedings, Las Quintas Serenas Water Co. hereby submits for filing seventeen (17) copies of the following documents:

- 1) Revised Exhibit AR-6;
- 2) Revised Exhibit AR-9; and,
- 3) An Exhibit Schedule which provides a reconciliation of the original numbering system used in the direct case Exhibits/Schedules of Ronald L. Kozoman with the Exhibit references contained in Mr. Kozoman's direct case testimony.

Copies of the attached documents and this letter are being mailed/emailed today to Judge Rodda and all parties of record.

Please let me know if you have any questions. Thank you for your assistance.

Sincerely,

Lawrence V. Robertson, Jr.

Cc: Hon. Jane L. Rodda
Jason Gellman
John Gay

AZ CORP COMMISSION
DOCUMENT CONTROL

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Exhibit AR-6 Revised
Witness: Kozoman

Staff's Taxable Income from Last Rate
Plus Incremental Principal Payments
of \$20,000

Staffs Prior
Taxable
Income +
(Commerce
Bank's

(a)

Income Tax Brackets for 2006

**Staffs
Taxable**

Principal
Repayments)

| | 2006 | 2006 | 2006 | 2006 | Income | | | | | | | | 1st Year |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|--|--|--|----------|
| Taxable Income | 50,000 | 75,000 | 100,000 | 500,000 | 18,260 | 38,260 | 58,260 | 78,260 | 98,260 | | | | 146,823 |
| Less Arizona Income Tax | 3,484 | 5,226 | 6,968 | 34,840 | 1,272 | 2,666 | 4,060 | 5,453 | 6,847 | | | | 10,231 |
| Arizona Income Tax Rate = | 6.968% | | | | | | | | | | | | |
| Federal Income Before Taxes | 50,000 | 75,000 | 100,000 | 500,000 | 18,260 | 38,260 | 58,260 | 78,260 | 98,260 | | | | 146,823 |
| Less Arizona Income Taxes | 3,484 | 5,226 | 6,968 | 34,840 | 1,272 | 2,666 | 4,060 | 5,453 | 6,847 | | | | 10,231 |
| Federal Taxable Income | 46,516 | 69,774 | 93,032 | 465,160 | 16,988 | 35,594 | 54,200 | 72,807 | 91,413 | | | | 136,592 |
| FEDERAL INCOME TAXES: | | | | | | | | | | | | | |
| 15% BRACKET UP TO \$50,000 | 6,977 | 7,500 | 7,500 | 7,500 | 2,548 | 5,339 | 7,500 | 7,500 | 7,500 | | | | 7,500 |
| 25% BRACKET ON NEXT \$25,000 | - | 4,944 | 6,250 | 6,250 | - | - | 1,050 | 5,702 | 6,250 | | | | 6,250 |
| 34% BRACKET ON NEXT \$25,000 | - | - | 6,131 | 8,500 | - | - | - | - | 5,581 | | | | 8,500 |
| 39% BRACKET ON NEXT \$235,000 | - | - | - | 91,650 | - | - | - | - | - | | | | 14,271 |
| 34% BRACKET OVER \$335,000 | - | - | - | 44,254 | - | - | - | - | - | | | | - |
| Federal Income Taxes | 6,977 | 12,444 | 19,881 | 158,154 | 2,548 | 5,339 | 8,550 | 13,202 | 19,331 | | | | 36,521 |
| Total Income Tax | 10,461 | 17,670 | 26,849 | 192,994 | 3,821 | 8,005 | 12,610 | 18,655 | 26,177 | | | | 46,752 |
| Tax Rate | 20.92% | 23.56% | 26.85% | 38.60% | 20.92% | 20.92% | 21.64% | 23.84% | 26.64% | | | | 31.84% |
| Effective Income Tax Rates | | | | | | | | | | | | | |
| State (State Tax Divided State Income) | 6.968% | 6.968% | 6.968% | 6.968% | 6.968% | 6.968% | 6.968% | 6.968% | 6.968% | | | | 6.968% |
| Federal (Federal Tax Divided Fed Income) | 15.00% | 17.83% | 21.37% | 34.00% | 15.00% | 15.00% | 15.77% | 18.13% | 21.15% | | | | 26.74% |
| Total Tax Rate (Total Tax Divided by Total Income) | 20.92% | 23.56% | 26.85% | 38.60% | 20.92% | 20.92% | 21.64% | 23.84% | 26.64% | | | | 31.84% |
| Revenue Conversion Factor (1 / (1 Minus tax rate)) | 126.46% | 130.82% | 136.70% | 162.86% | 126.46% | 126.46% | 127.62% | 131.30% | 136.32% | | | | 146.72% |
| Increment Tax (Staff Method) | 26.46% | 30.82% | 36.70% | 62.86% | 26.46% | 26.46% | 27.62% | 31.30% | 36.32% | | | | 46.72% |

(a) From Staff Exhibit DTZ-1 Income Taxes of \$3,458 and Operating Income of \$14,802.

Las Quinta Sernas Water Company

Test Year Ended 9/30/03

Latest Cost for Arsenic Treatment Equipment

Exhibit AR-9 Revised
Witness: Kozoman

Line (Changes highlighted by Underlining)

No.

| | | | | |
|----|---|----|----------------|--|
| 1 | Total Principal Payments 1st Year on Loan of \$1,889,168 | \$ | 128,563 | |
| 2 | Deleted | | | |
| 3 | Total Principal Payments 1st Year on Loan of \$1,889,168 | \$ | 128,563 | |
| 4 | Total of Principal Payments on the Loan for \$1,889,168 | \$ | 128,563 | |
| 5 | | | | |
| 6 | Total Principal Paid | \$ | 128,563 | Total Increased Taxable Income |
| 7 | Gross-up for Income Tax Purposes | | 146.72% | (Gross-up Tax rate with Staff's Prior Income + Principal Payments) |
| 8 | Total Gross Up Tax | | 188,625 | |
| 9 | Total Interest Payments + Income Tax Gross-up on Principal Paid | | 335,112 | |
| 10 | Equivalent Customers (Annual Basis) | | 12,324 | |
| 11 | Divide by Equivalent Customers | | | |
| 12 | Monthly Customer Charge for Equivalent 5/8-Inch Meter | \$ | 27.19 | (vs. \$27.62 in Rebuttal) |
| 13 | | | | |
| 14 | | | | |
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| 30 | | | | |
| 31 | | | | |
| 32 | | | | |
| 33 | | | | |

| Meter Size | Test Year Customers at 9/30/2003 | ACC Equivalent 5/8-Inch Conversion Factor | Equivalent Monthly 5/8-Inch Meters | Equivalent Annual 5/8-Inch Meters Times 12 Months | Monthly Minimum Present Rates | Proposed Surcharge | Proposed Monthly Minimum | Percent Change |
|----------------------|----------------------------------|---|------------------------------------|---|-------------------------------|--------------------|--------------------------|----------------|
| 5/8 x 3/4-Inch Meter | 700 | 1 | 700 | 8,400 | \$ 10.00 | 27.19 | \$ 37.19 | 271.92% |
| 3/4-Inch Meter | | 1.5 | 0 | - | 22.50 | 40.79 | \$ 63.29 | 181.28% |
| 1-Inch Meter | 36 | 2.5 | 90 | 1,080 | 25.00 | 67.98 | \$ 92.98 | 271.92% |
| 1 1/2-Inch Meter | 6 | 5 | 30 | 360 | 55.00 | 135.96 | \$ 190.96 | 247.20% |
| 2-Inch Meter | 4 | 8 | 32 | 384 | 70.00 | 217.53 | \$ 287.53 | 310.76% |
| 3-Inch Meter | | 16 | 0 | - | 125.00 | 435.07 | \$ 560.07 | 348.06% |
| 4-Inch Meter | 1 | 25 | 25 | 300 | 225.00 | 679.80 | \$ 904.80 | 302.13% |
| 6-Inch Meter | | 50 | 0 | - | 350.00 | 1,359.59 | \$ 1,709.59 | 388.45% |
| Standpipe | 150 | 1 | 150 | 1,800 | 10.10 | 27.19 | \$ 37.29 | 269.23% |
| Totals | 897 | | 1,027 | 12,324 | | | | |

Las Quintas Serenas Water Company
Ronald L. Kozoman, CPA
Exhibit Schedule / Changes from Direct Testimony

| Original Numbering System Used | Schedule Heading | Revised Numbering System |
|---|---|---|
| Exhibit A-8 | Income Statement Per Decision 67455 and With New Loan | Exhibit A-8 |
| Schedule C-3, page 1 | Computation of Revenue Conversion Factor | Exhibit A-9 |
| Schedule D-2, page 1 | Estimated Payments on Bank Loan to Acquire Arsenic Treatment Plant | Exhibit A-9 |
| Schedule H-2, page 1 | Analysis of Revenue by Detailed Class | Exhibit A-10, page 1 |
| Schedule H-2, page 2 | Customer Count Summary | Exhibit A-10, page 2 |
| Schedule H-2, page 3 | Gallons Sold Summary | Exhibit A-10, page 3 |
| Schedule H-3, page 1 | Present and Proposed Rates Including Estimated Surcharge, Estimated Operation and Maintenance Expense Associated with Arsenic Treatment Plant | Exhibit A-11 page 1 |
| Exhibit A-11 | Monthly Customer Charge and Annual Surcharge Mechanism Collections | Exhibit A-11 page 2 |
| Schedule H-3, page 2 | Equivalent 5/8 Inch Meters | Exhibit A-11, page 3 |
| Schedule H-3, page 3 | Monthly Customer Charge and Annual Surcharge Mechanism Collections | Exhibit A-11, page 4 |
| Schedule H-3, page 4 | Combined Monthly Minimum and ARSM Charge | Exhibit A-11, page 5 |
| Schedule H-3, page 5 | Customer Charge for Operation and Maintenance Cost of Arsenic Treatment Plant | Exhibit A-11, page 6 |
| Schedule H-4, page 1 | Present and Proposed Rates Residential, 5/8 Inch | Exhibit A-12, page 1 |
| Schedule H-4, page 2 | Present and Proposed Rates Residential, 1 Inch | Exhibit A-12, page 2 |
| Schedule H-4, page 3 | Present and Proposed Rates Residential, 1-1/2 Inch | Exhibit A-12, page 3 |
| Schedule H-4, page 4 | Present and Proposed Rates Residential, 2 Inch | Exhibit A-12, page 4 |
| Schedule H-4, page 5 | Present and Proposed Rates Residential, 4 Inch | Exhibit A-12, page 5 |
| Schedule H-4, page 6 | Present and Proposed Rates Standpipe Water | Exhibit A-12, page 6 |